



AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

Enhancing Legal and Electoral Capacity for Tomorrow – Phase II

Follow-up of OAI Report No. 1459 dated 31 July 2015

Report No. 1746
Issue Date: 8 December 2016

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**Report on Follow-up Audit of UNDP Afghanistan
Enhancing Legal and Electoral Capacity for Tomorrow – Phase II
(Previous OAI Report No. 1459, 31 July 2015)
Executive Summary**

From 13 to 23 November 2016, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit of Enhancing Legal and Electoral Capacity for Tomorrow – Phase II (the Project) under the purview of the UNDP Country Office in Afghanistan (the Office). This on-site follow-up audit was undertaken, in addition to regular desk reviews, in view of the ‘unsatisfactory’ audit rating assigned by OAI in Report No. 1459 dated 31 July 2015. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit scope and approach

The follow-up audit reviewed the implementation of 10 audit recommendations included in OAI Report No. 1459. OAI conducted appropriate tests of transactions and activities by the Project from 1 September 2015 to 15 November 2016 and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by the Office in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

Of the 10 audit recommendations, the Office had fully implemented 6 and initiated action on 3, while 1 recommendation was withdrawn, resulting in an implementation rate of 62 percent as per CARDS on 6 December 2016.

Implementation status	Number of recommendations	Recommendation Nos.
Implemented	6	1, 4, 7, 8, 9, 10
In progress	3	3, 5, 6
Not implemented	-	-
Withdrawn	1	2
Total	10	10

The detailed implementation status of the 10 recommendations has been updated by OAI in CARDS.

Section I summarizes the six recommendations that have been implemented and the three that are in progress. OAI encourages the Office to address the remaining recommendations. OAI will continue to monitor the progress of the implementation of the recommendations as and when updates are provided by the Office in CARDS.

Section II summarizes the one recommendation that has been withdrawn by OAI, as implementation is no longer feasible.

Management comments and action plan

Office management provided the revised implementation dates for the outstanding recommendations.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Details of recommendations implemented or in progress

Rec No.	Issue title	Recommendation	Implementation status reported by UNDP Afghanistan	OAI assessment
1	Failure to follow up on significant weaknesses in salary payments to IEC staff	<p>High (Critical)</p> <p>The Office should enhance controls over salary payments to IEC staff by:</p> <ul style="list-style-type: none"> (a) developing a time-bound action plan to address all the concerns and discrepancies highlighted in the payroll verification report; (b) withholding future salary payments, including top-up allowances; and (c) identifying any amounts for the previous periods that may need to be recovered from the IEC, in case issues identified from the verification exercise cannot be resolved within a specific timeframe. <p>[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]</p>	<p>For subsections (a) and (b), the Office addressed the concerns in the payroll verification report. All operational salary top-ups for Tashkeel staff and salary payments for the National Technical Advisors (NTA) ceased by July 2015. A follow-up payroll verification mission was undertaken by an audit firm, and concluded that all of the issues identified in the earlier payroll verification exercise had been resolved or implemented.</p> <p>(c) Based on the follow-up verification exercise, no additional discrepancies were identified except for a variance of \$200 due to the exchange rate fluctuations.</p>	<p>Implemented</p> <p>(a) The follow-up verification exercise undertaken in October 2015 concluded that all parts of the recommendation had been implemented.</p> <p>(b) The Office had communicated the decisions to the implementing partner in several letters, and a review of the payments made to them did not include operational cost payments and salary top-ups.</p> <p>(c) The follow-up payroll verification exercise did not identify any discrepancies except for those related to currency fluctuations, which were insignificant.</p> <p>Based on the above information, the recommendation is considered implemented.</p>

3	Unclear project results and no assurance on achievement of results	<p>High (Critical)</p> <p>Enhance capacity-building interventions by:</p> <ul style="list-style-type: none"> (a) articulating clear results to be achieved; (b) developing appropriate indicators that are specific and measurable; (c) identifying appropriate baselines as reference points; (d) ensuring the advisory and technical support provided is results-oriented and measurable; and (e) developing a comprehensive capacity-building strategy that consolidates the Project's support to enhance capacities. <p>[This recommendation is applicable to a new project in 2016.]</p>	<p>A full-fledged project document has not yet been developed, as it is pending the announcement of the elections timeline. A Project Implementation Plan (PIP) is currently in place, the primary objective of which is to formulate a new project once the elections date is announced.</p>	<p>In Progress</p> <p>(a), (b) and (c) OAI noted that some indicators identified in the PIP did not actually relate to the results to be achieved. Similarly, the target statements were not results-oriented. In terms of the advisory support provided, while there is improvement in the reporting of the support, this has not been quantified in some instances, and has been generalized as 'technical support'.</p> <p>(d) Technical and advisory support referred to in the PIP is not specific, as the elections are yet to be announced, and therefore this is still not results-oriented. The Office indicated that the PIP will be extended, and the revised version will incorporate support that is results-oriented and measurable.</p> <p>(e) A capacity-building strategy has not been developed.</p> <p><u>Management response:</u></p> <p>(a), (b), (c), and (d) A further improvement of the results statement, targets and indicators will be undertaken during the extension process.</p> <p>(e) A capacity-building strategy that will assess the areas where a future electoral project can focus on, in terms of building the overall capacity of the IEC, will be developed. This is in line with the expectation that the strategy will inform the design and development of the next full-fledged electoral assistance project.</p> <p><u>Agreed revised implementation date:</u> 31 March 2017</p>
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4	Weaknesses in the reporting process	<p>Medium (Important)</p> <p>Improve the reporting process by: (a) adhering to the reporting timelines set internally by the Office; and (b) strengthening the capacity of relevant programme and project staff members to report, including explaining the context, challenges, action taken and how they have contributed to the Office's programme outcomes.</p> <p>[This recommendation is applicable to a new project in 2016.]</p>	<p>(a) The Project was operationally closed on 31 July 2015. The final report was forwarded to the donors on 19 July 2016.</p> <p>(b) As the project closed, there was downsizing of staff, therefore training of staff was not deemed necessary at this time.</p>	<p>Implemented</p> <p>The final report was forwarded within one year of completion; the delay was due to an investigation case that delayed the financial closure/final financial report. The report was accepted by the donors.</p> <p>This recommendation is considered implemented.</p>
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5	Weaknesses in performance and development assessment and recruitment processes	<p>Medium (Important)</p> <p>Improve performance management and recruitment planning by establishing specific and measurable performance indicators and targets and monitoring these accordingly and document sufficiently the need for future human resources.</p>	<p>As the Project closed operationally on 31 July 2015, there was a downsizing in staff numbers, both international and national. The project has not recruited any staff during this period.</p>	<p>In Progress</p> <p>Based on the review of the 2015-2016 Performance Management Development (PMD) of five international staff, the audit noted that the PMDs were not completed timely.</p> <p>OAI also reviewed the key results in the PMDs and noted the performance goals were not specific, and indicators were not measurable in the five cases reviewed.</p> <p>On the staffing levels, the Office has retained a total of 18 personnel (including 5 international staff). OAI noted that this structure was not fully justified given the current PIP budget and work involved.</p> <p>The Office stated that it had already considered this issue and faced challenges regarding the uncertainty around the timing of the election. They added that the PIP would be extended to March 2017, at which point the staffing levels would be further reduced.</p> <p><u>Management response:</u></p> <p>The 2016-2017 PMDs are being revised to address the points raised in this recommendation.</p> <p><u>Agreed revised implementation date:</u> 31 December 2016</p>
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6	Weaknesses in expense management	<p>Medium (Important)</p> <p>Improve the management of expenses by: (a) reviewing and validating implementation support services charges before they are posted to accounting systems; (b) using the correct Chart of Account codes to post expenses; and (c) improving on the year-end financial statement closing procedures to ensure all expenses and advances are posted to the correct accounting periods.</p> <p>[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.]</p>	<p>(a) The Project reviews and verifies all cost recovery charges for services provided by the Office.</p> <p>(b) The Operations Advisor verifies the Chart of Account codes against the approved Annual Work Plan for any expenses charged to the Project.</p> <p>(c) Once the expenditure report for the list of charges to the Project from July 2015 to date is generated, the Project will highlight any expenses or advances not posted to the correct accounting period as requested.</p>	<p>In Progress</p> <p>OAI considers subsections (a) and (b) implemented as the Office had taken action to review the implementation support services charges and that correct account codes were applied.</p> <p>However, subsection (c) is in progress as the Project has not been financially closed, pending the litigation and some adjustments (e.g. pending payments to the transportation vendor, balances to be returned to the donors etc.).</p> <p><u>Management response:</u></p> <p>(c) The Project is being financially closed. The adjustments and pending payments are part of the closure process. OAI will be notified once the Project is financially closed in Atlas.</p> <p><u>Agreed revised implementation date:</u> 31 January 2017</p>
7	Inadequate supporting documents on payments to vendors	<p>Medium (Important)</p> <p>Improve the review and verification of payments to vendors by: (a) complying with the contract and ensuring vendors' invoices are adequately detailed and supported by evidence of payments made to third parties; (b) having the Project Manager confirm receipt of services, as required in the signed contract; and (c) reviewing all payments made to each vendor under each contract.</p>	<p>(a) The Office implemented new procedures to ensure the invoices have adequate details and supporting documents.</p> <p>(b) Invoices were supported by payment certificates with the approval of both the engineering unit and the Project Manager.</p> <p>(c) Payments were only made under the two construction contracts since July 2015. No other payments were issued.</p>	<p>Implemented</p> <p>No exceptions were noted in the payments made to the two vendors and the recommendation is considered implemented.</p>

8	Inadequate controls in management of performance bonds and bank guarantees	<p>Medium (Important)</p> <p>Enhance controls over the management of performance bonds and bank guarantees by: (a) ensuring that the Resident Representative is noted as the beneficiary of bank guarantees; (b) obtaining bank guarantees from vendors in accordance with contracts signed; and (c) establishing procedures to record and retain performance bonds and bank guarantees in the Office's safe.</p>	<p>(a) Bank guarantees were obtained for the two construction contracts.</p> <p>(b) Only two construction contracts were issued after July 2015 and the Office obtained the bank guarantees in both cases.</p> <p>(c) The Country Office's Supply Chain Management Office is responsible for recording and safeguarding the performance bonds and bank guarantees.</p>	<p>Implemented</p> <p>(a) The Resident Representative was listed as the beneficiary in both bank guarantees.</p> <p>(b) The bank guarantees were obtained in accordance with the contract.</p> <p>(c) The audit team reviewed the receipt, recording, and storage of the performance bonds and guarantees. All were stored in the safe, and procedures for receipt and handling of these had been established.</p> <p>This recommendation is therefore considered implemented.</p>
9	Weaknesses in submission of procurement cases to procurement review committees	<p>Medium (Important)</p> <p>Improve the quality of procurement submissions to procurement review committees by ensuring that all procurement processes are conducted in accordance with the UNDP rules, policies, procedures and principles.</p> <p>[This recommendation is applicable to a new project in 2016.]</p>	Two subsequent procurement case reports confirm that the quality of submissions to procurement review committees has improved.	<p>Implemented</p> <p>This recommendation is considered implemented.</p>

10	Weaknesses in asset management	<p>High (Critical)</p> <p>The Office needs to improve controls in asset management by: (a) transferring the 24 vehicles which are currently on loan to projects/entities in need of vehicles and recover the cost of vehicles from them; (b) recovering the amount of \$2.7 million; and (c) undertaking a comprehensive review of the Project's needs to dispose of vehicles that are in excess of the requirements.</p> <p>[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]</p>	<p>(a) The Project retained 3 vehicles and transferred 21 vehicles to the Office in December 2015.</p> <p>(b) The Project recovered \$1,195,953 for the use of 24 vehicles on loan based on the current net book value instead of the \$2.7 million indicated in the recommendation, which was based on the net book value when the vehicles were first loaned to the Office. The \$2.7 million had not considered the depreciation from 2010 to 2015.</p> <p>(c) The Project sold 9 vehicles to UN agencies and transferred 21 vehicles to the Office.</p> <p>As of 31 October 2016, the Project had 36 vehicles. The Project/Office undertook an analysis on project vehicles and identified 10 vehicles for disposal. The Office was waiting for more substantive decisions on the future election support project before conducting a comprehensive review of the Project's needs.</p>	<p>Implemented</p> <p>No exceptions were noted and the recommendation is considered implemented.</p>
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II. Details of recommendation withdrawn

Rec No.	Issue title	Recommendation	Implementation status reported by UNDP Afghanistan	Justification for withdrawing the recommendation
2	Inadequate controls over salary payments to IEC's polling staff	<p>High (Critical)</p> <p>The Office should establish measures to manage the high inherent risk of cash payments by ensuring that the IEC avoids cash transactions and makes payments by cheque or direct transfers to payee bank accounts.</p> <p>[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]</p>	Office management has undertaken appropriate actions to address the audit recommendations. The letter by the IEC proposing that all polling staff management and payments to them in the future be undertaken by the Government has been sent to the president's office. In the design of the next project, UNDP will ensure that this area is no longer implemented by UNDP.	<p>Withdrawn</p> <p>As the next UNDP project was not established, the recommendation could not be implemented by the Office. OAI is therefore withdrawing the recommendation. However, the Office is responsible for ensuring that the new project document will incorporate this recommendation.</p>

ANNEX Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented** The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.
- **In progress** The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.
- **Not implemented** The audited office has not taken any action to implement the recommendation.
- **Withdrawn** Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.